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By Charles Marleau, CIM

TFSA and the 72 Rule

I usually write about a company that our funds are invested in. This time, I've decided to write about something different yet important to all investors. The tax-free savings account (TFSA) was introduced in Canada in 2009. For the first year, any Canadian 18 years of age or older could make a TFSA contribution of 5,000. Yearly since 2009, contribution limits have been adjusted for inflation and rounded to the nearest \$500. The only exception was 2015 when the amount was \$10,000. For 2020, the maximum yearly amount stands at \$6,000 and since you can go backwards in order to 'catch up', the accumulated contribution amount for anyone who was age 18 or older in 2009 is \$69,500; a substantial amount of money.

If you've never contributed to a TFSA account, you may want to consider it. As a TFSA is 100% tax sheltered, you are exempted from paying any taxes on capital gains, interest income, dividends, or upon withdrawal. This is quite different from an RRSP, which is a tax deferred account (not tax free). The distinction between the two is that your RRSP will eventually be converted to a RIF, usually at the end of the year you turn 71. Once you begin to receive RRIF payments, you will be taxed on prescribed payments that you must take. The comparative advantage of a TFSA is twofold. Not only will you retain 100% of your gains and income because there's no tax to pay, you can also make withdrawals on your own terms. You can even recontribute any TFSA withdrawals in a subsequent year. In your RRSP once you make a withdrawal, you cannot replace it.

Let's look at a typical scenario assuming that 'John Doe' has never contributed to a TFSA. If Mr. Doe had invested a lump sum of \$69,500 (the maximum accumulated amount) on January 2, 2019 and he received an average return of 7%, the value of his TFSA would practically double every 10 years ($72/7\% = 10.2$ Years). This calculation is based on the '72 rule.' Based on this rule, the value of his TFSA would grow to \$139,000 by 2029, \$278,000 by year 2039, and \$556,000 by 2049 (see the calculations below). Further, if he were to contribute the maximum annual amount in each subsequent year, his wealth would grow at a much quicker rate - all tax free.

As you can see from the above example, making regular contributions to a TFSA can play an important role in growing your wealth. If you have not opened a TFSA account, I strongly suggest you consider the advantages of doing so. You can hold a TFSA at more than one institution, they are transferrable, and you can consolidate any TFSA accounts you have at Palos. And, if you're wondering what happens to your TFSA upon death, your assets can be transferred to a designated beneficiary or beneficiaries, usually tax free. If you have any questions concerning your TFSA or RRSP please contact one of our advisors for more information.

The 72 Rule: To determine how long it takes for money to double, we use a simple formula that we call the '72 rule'. This rule helps us to determine how long it will take for an investment to double, given a fixed rate of return. Higher returns will shorten the amount of years it takes to double your money. For example, a rate of return of 4% should double in 18 years ($72/4\%=18$ Years), a 5% return would take 14 years ($72/5\%= 14$ Years), a 6% return would take 12 years ($72/6\%= 12$ Years) and so on. At a 10% rate of return, your money would double in approximately 7.2 years ($72/10\%=7.2$ Years).

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La version française suit

Dear Palos Friends,

The deadline for your 2019 RRSP contribution is quickly approaching and we would like to remind you of the importance of contributing for the future. The earlier you start contributing to an RRSP or TFSA, the more money you'll have when it's time to retire. There's nothing like the power of tax-free compounding of returns.

You will find enclosed instructions to access your RRSP and TFSA contribution room available, via the CRA online portal, under the "My Account" section.

<https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>

Important Reminder to Contribute to Your RRSP and TFSA

Maximizing contributions to your RRSP and TFSA are two of the most important ways that Canadians can accumulate wealth. Here's what you need to know:

RRSP Advantages	<ul style="list-style-type: none"> • RRSP contributions are tax deductible. • Savings grow tax free. • When you retire, you can convert your RRSP to get regular income. • A spousal RRSP can reduce your combined tax burden. • You can borrow from your RRSP to buy your first home or pay your education.
RRSP Contribution Details	<ul style="list-style-type: none"> • The deadline for making your 2019 RRSP contribution is March 2, 2020. • Your 2019 RRSP contribution limit is based on any unused contribution room carried forward from 2018 plus your 2019 contribution amount (18% of your prior year's earned income, subject to a ceiling of \$26,500 in 2019) • If you have already made your 2019 contribution, consider making your 2020 RRSP contribution now to benefit from the tax-deferred growth of an RRSP. The maximum RRSP contribution limit for 2020 is \$27,230.
TFSA Advantages	<ul style="list-style-type: none"> • You can save tax free. • You don't need to earn income to contribute. • You can take the money out whenever you want, without paying any tax. • If you take money out, you can re-contribute the amount the following year.
TFSA Contribution Details	<ul style="list-style-type: none"> • The annual contribution limit for 2020 is \$6,000. • The TFSA contribution room is cumulative and has been accumulating since 2009. Unused contribution room carries forward, currently up to \$69,500.

If you would like to open, contribute or have any questions about RRSP or TFSA accounts, contact your investment advisor or email us at info@palos.ca.

By Charles Marleau, CIM

Chers amis de Palos,

La date limite pour votre cotisation REER 2019 approche à grand pas et nous aimerions vous rappeler l'importance de cotiser pour votre avenir. Plus tôt vous cotisez à un REER ou à un CELI, plus d'argent vous aurez. Il n'y a rien de tel que l'avantage des types de comptes libres d'impôt (CELI) ou de report d'impôt (REER) pour faire fructifier votre argent.

Vous trouverez ci-joint des instructions pour accéder à vos droits de cotisation à un REER et à un CELI disponibles, via le portail en ligne de l'ARC, dans la section «Mon compte». <https://www.canada.ca/fr/agence-revenu/services/services-electroniques/services-electroniques-particuliers/dossier-particuliers.html>

Rappel important pour cotiser à votre REER et à votre CELI

La façon la plus productive d'accumuler la richesse pour les Canadiens est de maximiser les contributions aux comptes REER et CELI. Voici ce que vous devez savoir :

Avantages du REER	<ul style="list-style-type: none"> • Les cotisations à un REER sont déductibles d'impôt. • Vos épargnes augmentent sans impôt. • Lorsque vous prenez votre retraite, vous pouvez convertir votre REER pour obtenir un revenu régulier. • Un REER de conjoint peut réduire votre fardeau fiscal commun. • Vous pouvez emprunter à votre REER pour acheter votre première maison ou payer vos études.
Détails sur la cotisation au REER	<ul style="list-style-type: none"> • La date limite pour verser votre cotisation REER 2019 est le 2 mars 2020. • Votre plafond de cotisation REER 2019 est basé sur les droits de cotisation inutilisés reportés de 2018 et le montant de votre cotisation 2019 (18% du revenu gagné de votre exercice précédent, sous réserve d'un plafond de 26 500\$ en 2019). • Si vous avez déjà effectué votre cotisation 2019, songez maintenant à cotiser à votre REER de 2020 pour bénéficier de la plus-value d'un REER avec impôt différé. La limite de cotisation maximale à un REER pour 2020 est de 27 230 \$.
Avantages du CELI	<ul style="list-style-type: none"> • Vous pouvez économiser en franchise d'impôt. • Vous n'avez pas besoin de gagner un revenu pour cotiser. • Vous pouvez retirer l'argent quand vous le souhaitez, sans payer d'impôt. • Si vous retirez de l'argent, vous pouvez réinvestir ce montant l'année suivante.
Détails sur la cotisation au CELI	<ul style="list-style-type: none"> • La limite de contribution annuelle pour 2020 est de 6 000 \$. • Les droits de cotisation CELI sont cumulatifs et s'accumulent depuis 2009. Les droits de cotisation inutilisés sont reportés, jusqu'à présent ils se soldent à 69 500 \$.

Si vous souhaitez ouvrir, cotiser ou avoir des questions sur les comptes REER ou CELI, vous pouvez contacter votre représentant ou envoyez-nous un courriel à info@palos.ca.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.66	1.85%
Palos Equity Income Fund - RRSP	PAL101	\$5.83	1.92%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$7.65	-0.03%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) ³	PAL300	\$10.44	0.61%
S&P TSX Composite (Total Return with dividends reinvested)			3.03%
S&P 500 (Total Return with dividends reinvested)			3.14%
S&P TSX Venture (Total Return with dividends reinvested)			1.21%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.82%
Canadian Government 10-Year			1.56%
Crude Oil Spot			US \$58.54
Gold Spot			US \$1,560.30
US Gov't10-Year/Moody BAA Corp. Spread			200 bps
USD/CAD Exchange Rate Spot			US \$0.7653

¹ Period ending January 17, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca